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SUBJECT: COSTA RICA'S INSURANCE MONOPOLY PREPARES FOR COMPETITION

¶1. SUMMARY. Costa Rica's legislature has commenced hearings on legislation to open up the government's insurance monopoly to competition, a requirement of CAFTA-DR. Meanwhile Costa Rica's Instituto Nacional de Seguros, (INS,) is making plans to modernize and prepare for an open market. INS plans to hire a consultant with international insurance experience to offer advice on strengthening infrastructure and personnel. INS officials have also signaled an intent to compete in the insurance market throughout Central America and plan to enter the Nicaraguan market first. END SUMMARY.

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Legislative action to break the insurance monopoly  
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¶2. The Costa Rican legislative assembly's economy committee is currently working on legislation to open the insurance market. Although the opening of the government monopoly is required by CAFTA-DR, press reports indicate that many believe it is time to introduce insurance competition regardless of CAFTA's fate. Despite that, the committee's deliberations are not a slam dunk. Over 200 motions have been filed with the committee, of which about 100 have been processed. The committee's pace will quicken in 2007 as additional hearing dates are added to the normal twice weekly schedule. Among the most contentious issues are how to finance the country's fire fighting force (which is currently funded by INS), the creation of an independent insurance regulator, and the method for financing infrastructure and personnel improvements at INS.

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INS MONOPLOY HAS BECOME SLUGGISH  
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¶3. INS is a moribund autonomous governmental entity that has obsolete equipment and lacks modern technical capacity to manage information. Due to its monopolist position, INS has yet to develop a culture of customer service that will be necessary to compete effectively in an open market. This past year INS has been the subject of considerable negative press regarding inefficiency, computer malfunctions, previously unknown perks received by its employees and possible corrupt payments made to former officials.

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THE MULTIPLE ROLES OF INS  
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¶4. INS is not only the single source for insurance products in Costa Rica, but it has operating responsibility for a number of quasi-insurance related activities. INS financing of the country's fire departments is one example. In addition, when traffic accidents occur, vehicles may not be moved, even when causing massive traffic jams, until an INS inspector arrives on the scene to investigate the accident. INS is also responsible for collecting the annual "marchamo" fee in Costa Rica, a combined road tax and liability insurance premium. Poor information management practices

were apparent recently when INS failed to exonerate road tax payments from the annual "marchamo" fee levied on the nation's accredited diplomats, including U.S. Embassy staff, which resulted in erroneous billings ranging from \$700-\$1,000 instead of the expected US\$40).

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INS LOOKS TO THE FUTURE  
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15. Recent press accounts indicate that INS will soon issue a request for proposals in the search for a consultant with international insurance experience that can help the organization plan for infrastructure, insurance products and personnel improvements that will be needed to be competitive in an open market setting. INS officials appear to have an interest in expanding operations throughout Central America, a plan they will first test in Nicaragua.

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